

**CARL MOYER PROGRAM
LOWER-EMISSION SCHOOL BUS PROGRAM**

AUDITING

**Policies and Procedures
March, 2008**

State law provides the ARB with oversight responsibilities and the authority to audit district Carl Moyer and School Bus Programs (Health and Safety Code sections 44291 and 39500) to ensure that those mobile source emission reduction incentive programs actually achieve the expected emission reductions. Further, the ARB is required to monitor such district programs to ensure that they are conducted in a manner that is consistent with the following:

- The Health and Safety Code
- ARB's Program Guidelines and Advisories
- Program Grant Award and Authorizations
- Local district requirements

Thus, in contrast to audits that focus primarily on the financial aspects of a program, State law prescribes a broader scope for ARB's monitoring of district incentive programs that includes an evaluation of the eligibility of projects funded and the nature and amount of the emission reductions achieved. As a consequence, ARB audits require staff with technical expertise in emission reduction technologies for a variety of equipment types who are also conversant with current State law and ARB program guidelines.

Besides identifying program deficiencies, audits also provide the ARB with a mechanism for identifying the strengths (commendable efforts) of district programs. These commendable efforts are shared with other districts and can thus be useful in improving Carl Moyer and School Bus Programs Statewide.

I. Audit Parameters

Generally, the audits are conducted in two parts; a programmatic review conducted by the ARB and a fiscal review conducted by the California Department of Finance Office of State Audits and Evaluations (Department of Finance) under contract with the ARB. Audits include a review of State allocations, local match funds, and earned interest as used to fund the following programs:

- Carl Moyer Program
- Lower-Emission School Bus Program
- Light- and Medium-Duty Voluntary Accelerated Vehicle Retirement and Repair Program
- Agricultural Assistance Program

Audits review individual projects funded under such programs as well as the programs as a whole.

Carl Moyer Program match projects funded with the \$2 motor vehicle registration fee surcharge authorized by Assembly Bill 923 (2004) are also audited. Non-match projects funded with that \$2 fee surcharge may be evaluated as part of an ARB audit, but such an evaluation is limited to project eligibility (e.g., whether a project is surplus to regulations and cost-effective). Any irregularities regarding non-match projects are reported separately from Carl Moyer Program audit findings.

To date, ARB audits have covered districts' implementation of the Carl Moyer and School Bus Programs. Because districts are either in the early stages of implementing the other two programs (i.e., the Light- and Medium-Duty Voluntary Accelerated Vehicle Retirement and Repair Program and the Agricultural Assistance Program) or are not yet implementing them, those emerging programs have not been included in the scope of previous and current audits. As those programs mature and become more fully implemented, detailed procedures will be developed to audit them. Also, the scope of an audit may be broadened to include relevant activities of parties outside of a district's direct purview (e.g., consultants, other governmental agencies) if such parties participate to any extent in the implementation of the incentive programs under audit.

In addition to comprehensive program audits, the ARB (and the Department of Finance, if appropriate) conducts follow-up progress reviews when necessary. If significant findings result from a comprehensive audit, follow-up reviews are typically scheduled to ensure that a district undertakes timely and effective corrective actions. These follow-up reviews focus on the specific areas that require correction and follow procedures that are tailored to the individual situation.

A. Programmatic Review

ARB's review typically covers, at a minimum, the two most recently-completed years of the Carl Moyer and School Bus Programs as well as progress made during subsequent years. ARB may also choose to review documents from prior years if deemed necessary or relevant. ARB's review typically is performed in six phases including:

1. Preparation for review
2. First on-site visit (including the Entrance Interview)
3. Desk review
4. Inspections
5. Second on-site visit (including the Exit Interview)
6. Audit report

B. Fiscal Review

The ARB contracts with the Department of Finance to perform an in-depth review of the fiscal elements of districts' Carl Moyer and School Bus Programs during the same audit years covered by ARB's programmatic review. While ARB staff work closely with Department of Finance staff, and while there is some overlap between the two reviews, the Department of Finance focuses on fiscal issues and follows their own departmental procedures for their portion of the audit. The Department of Finance also reports separately on their methods and results.

II. ARB Audit Team

In general, the ARB audit team comprises the branch chief and other managers, the manager directly overseeing the audits (Incentives Oversight Manager), the audit director(s), the audit leads, and the audit team members. The main duties of the different audit team members are outlined below.

The management team provides policy direction, establishes audit parameters, finalizes the list of districts to be audited, determines staffing resources, and establishes deadlines for audits to be completed. Management also reviews all written products (e.g., notification letter and audit report) and attends key meetings with districts as necessary. The management team meets with key audit staff throughout the course of each audit to discuss its progress and any issues or concerns that may have arisen. The management team also provides direction throughout the course of an audit and elucidates ARB policies that may impact the audit. Overall, the management team ensures that each audit meets high standards for quality and integrity. Moreover, management keeps audits on track so that, taken as a whole, such audits assure that the emission reductions achieved by California's mobile source incentive programs are real, quantifiable, surplus, and enforceable.

The Incentives Oversight Manager is responsible for overseeing audits and coordinating the work of staff to ensure that the audit process is consistent and that ARB objectives are achieved for all audits. The audit director(s) (if applicable) assists the Incentives Oversight Manager and contributes to a wide variety of tasks including the following: recommending districts to be audited, recommending timelines for completing audits, keeping the management team informed of progress and emerging issues, collaborating with each audit lead to establish timelines and complete tasks, coordinating the Department of Finance's

participation, responding to requests made by other agencies (e.g., Bureau of State Audits) regarding audits, training audit team members, updating administrative documents such as policies and procedures and audit forms, reviewing documents such as audit reports and formal correspondence with the district, and assisting other audit team members in completing tasks as needed to ensure audits are completed in a timely manner. In the absence of an audit director, the Incentives Oversight Manager coordinates the completion of the above tasks.

The audit leads work closely with the Incentives Oversight Manager (and audit director if applicable) and are responsible for ensuring that all tasks associated with a particular district audit are completed. Typically, two audit leads are assigned – one to lead the bulk of the audit, particularly the Carl Moyer Program portion of the audit, and one to lead the School Bus Program portion. The audit leads coordinate with each other as necessary to draft audit-specific documents (e.g., notification letter, audit report), coordinate desk reviews and inspection efforts, and interface with district personnel as needed. The audit leads also assist with training and with management briefings, and conduct portions of meetings with the district.

Audit team members, under the direction of the appropriate audit lead, collect and compile information, perform project file reviews, conduct engine inspections, and assist the audit lead with other tasks as needed. Typically, team members are drawn from ARB Carl Moyer and School Bus Program staff as appropriate. The Carl Moyer Program liaison for the district undergoing the audit - because of his/her working relationship with district staff and access to information regarding district procedures, projects, and expenditures - typically is a key member of the audit team and assists with coordinating with the district and with collecting and compiling necessary documents and information.

III. Training

A. Audit Staff

Audit staff members are trained by the audit director, audit lead, or management, as appropriate. Staff receive training on how to complete project file reviews and any other audit tasks assigned. Staff are also trained regarding appropriate conduct and safety considerations for field inspection visits.

B. Districts

Training is provided to the districts during the quarterly Carl Moyer Program Incentive Program Implementation (IPI) meetings. Such training includes information on what to expect during an audit and results of previous audits. ARB may also request that districts previously audited and identified as having commendable efforts train other districts regarding those efforts.

IV. Annual Audit Plan

At least once a year, typically during the fall of each year, the audit team performs a risk analysis and develops recommendations for:

- Districts to be audited during the upcoming year
- Resources required for each audit
- Audit parameters such as fiscal years to be included and types of audits to be conducted (e.g., comprehensive program audit, follow-up review)

The risk analysis is performed to prioritize higher-risk districts for audit. Typically, this analysis uses information regarding both the Carl Moyer and School Bus Programs. Risk factors used for this analysis may include, but are not limited to, the amount of funding received by a district, the standing of a district (e.g., in good standing or an “at-risk” district), the length of time since the last audit of a district, a district’s staffing resources, and the number of projects funded by a district. The audit team develops draft recommendations based on the risk analysis.

The management team (i.e., Branch Chief, Carl Moyer Program managers, School Bus Program manager) and audit director (if applicable) meet at least once a year, usually late in the fall of each calendar year, to determine the audit plan for the upcoming year. The management team considers the draft recommendations and weighs other program considerations (e.g., available staff resources) to determine the numbers of audits to be conducted over the course of the upcoming year and the specific districts to be audited. The Department of Finance is also consulted regarding resources and availability. Subsequently, the audit plan is further developed by the management team and the audit director (if applicable) to specify the following:

- The audit schedule, including target dates for each major phase of the audits
- The district audit leads and potential team members for each audit, including the roles assigned to individual audit team members
- The parameters of each audit

Once specific districts are selected for audit, they are notified by phone and e-mail. In addition, a list of districts selected for audit during the upcoming year is posted on ARB’s Carl Moyer Program website.

V. Audit Process

The audit processes for the Carl Moyer and School Bus Programs follow the same general procedures, but differ in some areas. The audits of the two programs are closely coordinated to maximize the efficiency of the audit process

and reduce the resource impacts on the ARB and the district being audited. There are a number of similarities between the two programs that enable parallel audits to be conducted; both programs are voluntary grant programs for heavy-duty vehicles/engines, there is some overlap in their sources of funding, and there typically is some overlap in the district staff who administer those programs. Differences in audit procedures used for the two programs are noted in the discussions below.

A. Preparation for Audit

A number of tasks are completed before the first on-site visit to a district selected for audit. Such tasks include, but are not limited to, audit team planning, notification of the district regarding the audit both verbally and in writing, and selection of projects for audit.

1. Audit Team Planning

Once the annual audit plan has been completed by the management team, the Incentives Oversight Manager and audit director(s) (if applicable) meet with the audit leads and audit team members to discuss the upcoming audits and assignments for each member. Training needs are discussed and scheduled as necessary during this time. In addition, the equipment needs of all team members are assessed and equipment is ordered if needed.

The audit director (or Incentives Oversight Manager), with the assistance of the audit leads for each of the relevant districts, also reviews relevant prior audits of a district (e.g., audits conducted by ARB, Bureau of State Audits, Department of Finance, and/or private auditing firms) to help further refine the scope of a particular audit.

2. Notification of Audit

Prior to an audit, the relevant district is asked to identify their primary contact person for audit coordination. The audit lead creates a communication log, where all contacts between the audit team and the district are documented. Approximately three and a half months prior to the estimated date of the first on-site visit, the Carl Moyer Program audit lead calls the district contact to discuss the dates of that visit, which typically lasts several days. Once the dates are agreed upon, the Carl Moyer Program audit lead (with input from the School Bus Program lead) drafts a letter for the Branch Chief's signature that formally notifies the district of the audit. ARB's goal is to send the notification letter to the district's Air Pollution Control Officer (APCO) approximately 90 days prior to the first on-site visit. The letter includes:

- ARB's authority to perform audits.

- Parameters of the audit (Carl Moyer Program, School Bus Program, etc.; fiscal years included in the audit).
- Date(s) scheduled for the audit.
- Request for facilities (room, copier, etc.)
- Deadlines(s) to submit requested documents to ARB. (The Carl Moyer Guidelines typically allow 30 days for such submittals.)
- Contact information for audit, both ARB and Department of Finance
- Audit Preparation Summary (attachment to the letter). This summary further informs the district about the audit process and requests specific documents from the district. Because a district may have already provided ARB with many such documents as part of normal program operations, the audit lead typically works with the district liaison to compile relevant documents that ARB currently has on hand. The letter to the district acknowledges that ARB may already have some of the requested documents and provides a means for the district to verify that the audit team is using the most appropriate versions of such documents.

At the same time the notification letter is mailed to the APCO, the Carl Moyer Program audit lead sends an electronic copy (in pdf format) of the letter to the appropriate district contact(s). The Carl Moyer Program audit lead then verbally notifies the district contact (if there is a different district contact for the School Bus Program, the School Bus Program lead notifies that individual), briefs him/her regarding the contents of the letter, and specifies the documents required. The Carl Moyer Program audit lead creates a documentation log for the audit that lists all the documents requested, when they were received, who supplied them, and where in ARB's offices they are located. If all the requested documents are not received by the due date stated in the letter and/or the attachment, the appropriate audit lead notifies the district program contact regarding what is missing and ascertains a date by which such information will be received. All verbal communications with the district are followed up by an e-mail to the district contact and copied to the audit director(s) (if applicable) and Incentives Oversight Manager. Copies of all written correspondence and records of verbal communications are placed in the audit files.

3. Selection of Projects for Audit

The selection process used for the Carl Moyer Program and the School Bus Program differ somewhat. For the Carl Moyer Program, as part of the process to select specific projects for review during an audit, the Carl Moyer Program audit lead applies risk factors to all relevant projects funded by the district during the years being audited. For each audit, the audit lead determines, in consultation with the audit director (if applicable) and Incentives Oversight Manager, the appropriate risk factors and project selection process to be used. Risk factors may include items such as funding source(s), types of engines in a project, level of concern with the determination of the surplus nature of the emission reductions, and the applicant/grantee participation history. The main objective of

this procedure is to choose projects that are considered higher risk, and thus a higher audit priority. Another objective in the selection process is to choose a broad sample of project types that reflect the types funded. Typically, projects that rank higher in risk for each project category type are chosen. More than one project may be selected from each project category type. The selection process also considers differences in funding years – with associated changes in guideline requirements, staff changes, procedural changes, etc. The audit lead may also choose to randomly select additional projects to evaluate the consistency of the district's treatment of different projects.

Because the School Bus Program is structured differently than the Carl Moyer Program and has less diversity in project types, the School Bus Program audit lead uses a more streamlined process to select projects to audit. The selection process typically involves using criteria designed to select a sample that reflects the diversity of project types and funding sources used in a district's program.

Once specific projects to be audited are selected, a file folder is prepared for each project and is brought to the district for the first on-site visit. Each audit lead also prepares a list of the selected projects and provides it to the district during the first on-site visit after the pertinent project files are pulled and copied by the audit team (discussed below).

4. Preparation for Entrance Interview

In addition to selecting projects for review, the Carl Moyer Program audit lead prepares, for management approval, an agenda, sign-in sheet and speaking notes for the entrance interview. The School Bus Program audit lead also prepares speaking notes for management approval.

B. First On-Site Visit

The first on-site visit includes an entrance interview with district management and district Carl Moyer and School Bus Program staff. District program staff are also asked to present a process briefing, provide specific documents, and provide access to selected district files for audit staff to photocopy.

1. Entrance Interview

To initiate the audit, members of the audit team meet with district management and staff at the district office to conduct an entrance interview. The focus of the entrance interview is to brief district management and staff regarding the audit process and to introduce key ARB and Department of Finance audit staff.

The entrance interview typically includes key members (including managers) of the ARB and Department of Finance audit team, the district APCO or designee, the district manager of the administrative and/or fiscal section, the district

manager(s) of the Carl Moyer and School Bus Programs, and other relevant district staff. A member of the ARB audit team (typically the Carl Moyer Program audit lead) conducts the meeting. Topics discussed include:

- Introductions
- ARB's authority to audit
- Goals of the audit
- Audit parameters
- Audit process
- Confirmation of the district contact person for the audit and preferred briefing procedure, including mode and frequency of communication
- Department of Finance's audit goals and process

2. Process Briefing

District program staff are asked to meet with audit team members to guide them through the day-to-day process the district uses to run its Carl Moyer and School Bus Programs. The process briefing includes key ARB and Department of Finance audit team members, district manager(s) of Carl Moyer and School Bus Programs, and any relevant district staff. This briefing typically covers the process used from start to finish of each project, including the following topics:

- Acceptance of funds from ARB
- Solicitation for applications
- Outreach
- Environmental justice policy
- Application evaluation process
- Selection of projects
- Obligation of funds
- Contracts
- Inspections
- Invoices
- Reports from applicants/grantees
- Documentation
- Recapture of funds
- Interest
- AB 923 funds
- Match funds
- Personnel years
- Opportunity for district staff to ask questions

To help the district prepare for this briefing, the list of topics to be covered is e-mailed to the district program contact(s) by the Carl Moyer Program audit lead once the notification letter has been sent.

3. Information Gathering

During the first on-site visit, district program staff are asked to provide specific program documents and access to district files. The audit team pulls and photocopies the individual project files and general program files that were selected prior to the site visit, and may also copy some project files selected at random on the spot. The audit team then brings the photocopied files back to the ARB's offices in Sacramento and/or El Monte for the desk review. Care is taken to not give district staff any prior knowledge of the identity of the projects selected for review. However, the Carl Moyer and School Bus Program audit leads provide the district staff with a list of such projects at the end of the visit. Depending on the circumstances of the audit, the audit team may elect to return to the district at a later date to obtain copies of more project files for review.

C. Desk Review / Project Inspections

Once back at ARB offices, the ARB audit team conducts the desk review, which is comprised of project file reviews and district program document reviews. The Carl Moyer and School Bus Program audit leads remain in close communication with the district throughout this process to clarify issues as they arise and to request additional materials as needed. Depending on the circumstances of an audit, the audit leads may opt to schedule periodic meetings with the district. Any request for additional material is documented and included in the audit file.

1. Project File Review

To ensure the quality and consistency of the file reviews, the Carl Moyer and School Bus Program leads first meet with the respective reviewers and brief them regarding the review process. That briefing includes discussing any specifics that must be considered during the review of the projects such as applicable guidelines, dates of adopted regulations, release dates of applicable advisories, and relevant local requirements.

For the Carl Moyer Program, an initial review of project files is performed to check whether the district properly determined each selected project's eligibility for funding. To conduct this review, the audit team evaluates information contained in project applications, project contracts, cost-effectiveness data and calculations, regulatory requirements that would impact the surplus nature of the projects, Health and Safety Code requirements, program guideline and advisory requirements, and any relevant district eligibility requirements. Members of the audit team fill out an eligibility evaluation form for each project under review. Completed forms are submitted by each reviewer to the Carl Moyer Program audit lead. In addition, the audit team members input relevant review information into an electronic summary spreadsheet for the audit lead's review.

The audit team next conducts a more in-depth review of a subset of the original selection of project files. The Carl Moyer Program audit lead first recommends, for management approval, specific projects to undergo this in-depth review. Such projects, at a minimum, are selected to represent each source category funded by the district. Once the project selection has been approved, the audit team conducts an in-depth review in which important administrative and technical details are checked by following the project documentation from the time of application through the purchase of the equipment and into the grantee's reporting period. This investigation checks to see whether all required documents are available and whether they were consistent with the requirements of the district contract, the appropriate program guidelines and advisories, the Health and Safety Code, and any other applicable regulations and requirements. Members of the audit team fill out in-depth file evaluation forms for this review. As with the eligibility review, completed forms used for the in-depth review are submitted by each reviewer to the Carl Moyer Program audit lead. In addition, the audit team members input relevant review information into an electronic summary spreadsheet for the audit lead's review.

The Carl Moyer Program audit lead evaluates all file review forms and summary spreadsheets and works with audit team members for further clarification if needed. If specific issues arise, the audit lead works with district staff to determine whether the issues can be elucidated by records of correspondence between ARB and the district. If additional documentation is needed from the district to conduct the project file reviews, the audit lead compiles a list of requested documentation and discusses this with the district program contact. During such discussions, the audit lead specifies a date by which the district will provide the documentation. If additional documentation is provided by the district, the audit lead provides it to the appropriate audit team members and ascertains whether the new information allows for completion of the file review.

The review process performed for School Bus Program project files follows a similar pattern to that used for the Carl Moyer Program but is more streamlined, consolidating the eligibility and in-depth reviews for all projects selected.

2. Program Document Review

Another step in the desk review is an evaluation of key district program documents. The Carl Moyer and School Bus Program audit leads (with assistance from audit team members if needed) review these program documents to ensure that they meet or exceed the requirements as established in the Health and Safety Code, program guidelines and advisories, and any relevant eligibility requirements established by the district. The reviewer fills out a desk review check sheet designed to aid this process for many of the documents. The documents typically reviewed include, but are not limited to, the following:

- Policies and procedures manual
- Documentation of district governing board acceptance of funds
- Solicitation documentation
- Outreach materials
- Application forms for relevant audit years and source category types
- District rating and ranking materials, including final ranking roster of selected projects
- Documentation of obligation of funds
- Project inspection forms
- Contract language for different years and source category types
- Grantee reporting forms and other tools used to monitor projects
- Payment documentation
- Environmental justice policy and procedures followed for project selection

3. Project Inspections

For this phase of the audit, a subset of the Carl Moyer Program projects selected for eligibility review is inspected by the ARB audit team to check whether the engines/projects are in proper working order and are consistent with information in the project file such as the application, contract, and invoices. Project site inspections are typically not conducted for the School Bus Program portion of the audit because of that program's relative homogeneity in project and applicant types and the need to minimize impacts on staff resources for both the ARB and the district being audited. In addition, the California Highway Patrol is required by State law to inspect all school bus retrofits prior to return to service, providing an additional measure of certainty regarding such projects.

To select the projects for inspection, the Carl Moyer Program audit lead considers the range of project types funded as well as additional information obtained from the file review. The audit lead then develops a list of recommended projects for management review. Once the list is approved, the Carl Moyer Program audit lead speaks to the district program contact to discuss the site visits. At that time, the audit lead notifies the district regarding which projects have been selected for the site visits and provides the district with the option of arranging the inspection visits and accompanying the audit team on such visits. If the district chooses not to participate, the audit lead contacts the project grantees directly to schedule the site visits.

The ARB audit team makes every effort to accommodate the schedules of the engine owners. This means that inspections sometimes occur very early in the morning or in the evening. Inspections that cannot be conducted prior to the second on-site audit visit to the district (described below) are scheduled and completed during the second on-site visit or shortly thereafter. Grantees are informed by the individual scheduling the inspection that the inspection team will request:

- Access to the engine
- The ability to witness the engine's operation for at least a few seconds
- Access to use records (fuel, hours, maintenance). If these are at an alternate site, the team will need to be notified of that as well
- Permission to take photographs
- Financial records if the Department of Finance participates

The inspection team for each project visit is comprised of at least two individuals - two ARB audit team members or one ARB audit team member and one district staff member. Prior to each inspection visit, the inspection team verifies the following with the audit lead:

- Information regarding the location of the engine/site to be visited
- Grantee contact name and phone number for the day of the site visit
- Any specific safety or contact requirements

Inspection team members also gather the following materials to take with them during the inspections:

- Site visit checklist/inspection sheet
- Map to location or address if taking navigation device
- Safety equipment including safety helmet, steel-toed boots, gloves, safety glasses, ear protection and safety vests
- Cell phone
- Digital camera and memory cards
- Business cards and identification
- Water
- Hand cleaner and paper towels

At the project site, the inspection team members identify themselves and offer a business card. Team members request to speak to the grantee contact to obtain permission to conduct the inspection and take photographs. The team members review maintenance and usage records, ask to see the engine start, take photographs, and verify the information listed in the Site Visit Checklist/Inspection Sheet.

Once each site inspection is completed, ARB audit team members return to the ARB offices and compare the information noted on the Site Visit Checklist/Inspection Sheet with information compiled from the project file review. The audit team also inputs the information noted on the site visit sheet into an electronic summary spreadsheet for the Carl Moyer Program audit lead's review. If any issues or concerns are uncovered during the site visit, the ARB audit team discusses them with the Carl Moyer Program audit lead upon returning to ARB offices. The inspection team may also discuss such concerns on-site with any district staff present, but care is taken to not conduct such discussions in the presence of the grantee. The audit lead may choose to discuss any issues that

are identified during the inspections with the district contact, giving the district the opportunity to provide additional information.

4. List of Issues

Once the project file review, program document review, and site inspection visits are complete, the Carl Moyer and School Bus Program audit leads each compile a list of issues that resulted from these investigations and discusses the issues with management. Any potential issues are documented with hard copies of appropriate file pages, notes taken with specific examples (including project and vehicle/equipment/engine numbers), and references to each written requirement with which there is a discrepancy. Each audit lead includes in the list of issues all instances in which the ARB audit team found discrepancies in documentation provided by the district relative to Health and Safety Code requirements, program guidelines or advisories, grant award and authorizations, or written communications provided by ARB either in e-mails or letters.

In addition, the Carl Moyer and School Bus Program audit leads each develop a list of commendable efforts, where the district has exceeded requirements and where such efforts could serve as a model for other districts.

The lists of issues and commendable efforts are discussed with district program staff at the beginning of the second on-site visit (discussed below).

D. Second On-site Visit

During the second on-site visit, the Carl Moyer and School Bus Program audit leads present district staff with the issues and concerns discovered during the audit thus far. Depending on the circumstances of the audit, additional information may be evaluated (e.g. expenditures, databases) and additional project files may also be reviewed during the second on-site visit. Interviews with district staff and an exit interview with district management are also conducted at this time.

1. Review of Issues with District

On the first day of the second on-site visit the Carl Moyer and School Bus Program audit leads meet with the district's program contact and any additional staff the district opts to include to discuss in detail any issues or concerns that may have arisen during the project file review, program document review, or site inspections. Also during this meeting, the Carl Moyer Program audit lead discusses the remaining process with district staff. The district is given an opportunity to provide for the ARB audit team's consideration any additional relevant information that may have been overlooked or was not included in the documents already obtained. The district is requested to provide any such information in advance of the exit interview. Any concerns that remain at the end

of the second on-site visit are discussed with the district's APCO and management during the exit interview (discussed below).

2. Additional Data Gathering

While on site, the audit team continues their evaluation of the district's implementation of the program(s) and, depending on the circumstances of the audit, may choose to evaluate areas not yet reviewed. This may include reviewing additional project files, reviewing electronic files such as databases, and reviewing tracking sheets.

3. Expenditure Review

While on site, the ARB audit team conducts a review of the expenditures made by the district to ensure that all expenditure requirements are met. District payment documentation and expenditure tracking sheets may be used in conducting this review. This review may include funds from the Carl Moyer Program, School Bus Program, local match funds, funds authorized by AB 923, and earned interest. This review considers cumulative expenditures and does not specifically consider the fiscal year in which the funding originated. This method is designed to determine, in a broad fashion, whether a district's incentive funds have been properly expended on clean-air projects by the relevant statutory/guideline deadlines.

The Department of Finance also independently reviews the district's expenditures for the years covered by the audit. The Department of Finance analyzes expenditures on a year-by-year basis and thus, in contrast to ARB's approach described above, more closely considers the fiscal year in which the funding originated. This is performed to complement the ARB's cumulative analysis and to provide a complete picture of a district's performance regarding expenditures.

4. Interviews with District Personnel

The ARB and Department of Finance audit team may interview several district staff and managers to obtain a better understanding of how the programs are implemented on a day-to-day basis, and how this compares to the information provided by the district in the process interview and in its policies and procedures manual. These interviews are primarily intended to provide further understanding and clarification.

5. Preparation for Pre-Exit and Exit Interview

Near the end of the site visit, the Carl Moyer and School Bus Program audit leads meet with ARB management to review any remaining issues and concerns. Once management has approved the potential findings and recommendations,

the Carl Moyer Program audit lead prepares for management approval an agenda, sign-in sheet, and speaking notes for the exit interview. The School Bus Program audit lead also prepares speaking notes for that portion of the audit.

6. Pre-Exit Interview

The day before the exit interview, the audit team meets with the district program lead and any other staff the district opts to include to provide an in-depth review of any potential findings and recommendations that will be presented to the district APCO during the exit interview. The audit lead also describes the process to be followed once the exit interview is complete.

7. Exit Interview

The second on-site visit concludes with the exit interview. The exit interview includes a policy-level discussion regarding remaining concerns and their implications to the Carl Moyer and School Bus Programs and is attended by members of the ARB audit team, the Department of Finance, the district APCO, and other relevant district management and staff. This interview is designed to ensure that district management is fully informed of the results of the audit. The exit interview is also an opportunity to provide clarification to the district and to correct any misunderstandings.

The same parties that attended the entrance interview should attend the exit interview. The agenda for the exit interview typically includes the following:

- Introductions
- Recognition of commendable efforts performed by the district
- Discussion of all potential findings, with the ARB providing specific examples for each finding
- Discussion of preliminary recommendations
- Review of next steps and timeline of the audit
- Request for comments from the district

The district is provided an opportunity to comment before the ARB audit team returns to ARB offices to document any findings in an audit report.

Upon completion of the exit interview, the ARB audit team leaves the district offices. If some projects were not available for inspection during the scheduled period of the audit, a preliminary exit interview may be held, including a discussion regarding projects that were unavailable for inspection and the expected time (within one month) for return of at least part of the ARB audit team. At the conclusion of all the inspections, a final exit interview is held if any additional issues are identified. The final exit interview summarizes all of the agenda items previously discussed and includes the results of the additional field

work. If no additional issues are identified, the Carl Moyer Program audit lead informs the district contact via phone call and follows up by email.

VI. Opportunity for the District to Provide Additional Information

Once the exit interview is complete, the district is given ten working days to provide the ARB with additional information to consider prior to finalizing the audit results. The district may provide information that mitigates concerns raised and a plan for mitigating remaining issues. Such information will be reflected in the audit report.

VII. Audit Report

A. ARB Report

Typically, within 60 days after the exit interview ARB provides the district with a written copy of the audit report. This report is drafted by the Carl Moyer and School Bus Program audit leads, reviewed by the audit director (if applicable) and audit management team, and approved by ARB's Executive Officer. The ARB's Executive Officer also signs the cover letter that accompanies the report when it is sent to the district's APCO. The audit lead typically sends an electronic copy (in pdf format) of the report and cover letter to the district contact at the same time those documents are mailed to the APCO.

The audit report outlines the audit process used by ARB and the process the district uses to implement its Carl Moyer and School Bus Programs. The report highlights commendable efforts of the district, makes recommendations for program improvements, and lists the audit's findings along with specific examples, and the actions required to rectify the findings. ("Findings" refer to practices that are inconsistent with State law, Carl Moyer Program Guidelines, School Bus Program Guidelines, program advisories, Grant Award and Authorization requirements, or a district's written policies and procedures - including its contracts with engine owners/grant recipients.) The audit report also indicates if ARB has determined that one or more follow-up reviews are appropriate to ensure that the district corrects any significant deficiencies.

B. District Response

The district is provided 30 calendar days from the date of the audit report to respond in writing and provide mitigation strategies and timelines for correcting any deficiencies. The ARB staff may provide the district with assistance to develop and implement a corrective action plan. The district's response and action plan becomes an addendum to the audit report but does not modify its conclusions. ARB may, at its option, write comments regarding the district's response. Copies of the ARB audit report and the associated district response are placed in the ARB district program files at the conclusion of the audit.

C. Department of Finance Report

The Department of Finance produces a separate report regarding the methods and results of the fiscal portion of the audit. This report is typically released within several weeks of ARB's report. The Department of Finance sends a draft of the report to the district's APCO and allows the district ten business days in which to provide a written response for inclusion in the final report. The Department of Finance coordinates with ARB regarding its findings and recommendations for corrective action; in some cases follow-up action is conducted by the Department of Finance and in other cases such action is appropriately conducted by ARB. The Department of Finance may, at its option, write comments regarding the district's response.

D. District Failure to Take Adequate Corrective Action

If the ARB determines the district has not taken adequate corrective action or did not provide an adequate mitigation plan within the required 30 calendar days specified in the ARB audit report, the district is deemed "at risk" and appropriate actions are taken. Generally, such actions begin when ARB provides a written notification to the district of the "at risk" determination, after which the district has 30 calendar days to submit an acceptable remedial plan. If an acceptable remedial plan is not submitted on time, ARB may begin an administrative action to recapture funds from the district. If an acceptable remedial plan is submitted on time, ARB provides the district with assistance in carrying out the plan and closely monitors the district's progress. As specified in the Carl Moyer Program Guidelines, an "at risk" district is not eligible to apply for future funding until corrective action is taken and the "at risk" designation is removed.

E. Provisions for Longer-Term Follow-Up

The ARB follows up with the district to ensure that it addresses the deficiencies identified in the audit. The follow-up steps are specified in the audit report and highlighted in the cover letter to the district that accompanies the audit report. Typically, the ARB requires the district to provide a written report on its progress at three time points: 60 days, 6 months, and one year after the audit is completed. If appropriate, the ARB may require more frequent reporting by the district, schedule periodic on-site visits, and/or schedule a follow-up review. If a district fails over time to adequately correct the deficiencies identified in an audit, the ARB may elect to add a stipulation to the district's grant agreement that ties the release of State incentive grant funds to the satisfactory correction of such deficiencies.

F. Public Release of ARB and Department of Finance Audit Reports and District Responses

Soon after the ARB has received the district's response to the ARB audit report, the ARB makes the audit report and the district's response available to the public. At the direction of the program management team, the program webmaster posts the audit report, the district response, and any ARB comments on the Carl Moyer Program website (<http://www.arb.ca.gov/msprog/moyer/audits/audits.htm>). The Department of Finance's audit report, including any corresponding district response, is also posted on the same website.

To further ensure that the public and the Board are informed regarding audits, a summary of the past year's audits along with instructions on obtaining detailed audit reports are included in the Annual Status Report to the Board on the Carl Moyer Program. This report is presented annually to the Board during one of its regular public hearings and is posted on ARB's Carl Moyer Program website.

The ARB encourages each audited district to make the ARB and Department of Finance audit reports and the corresponding district responses public by posting them to their district website and presenting them to their governing board. The ARB management is available to discuss the audit findings to the district's governing board if requested.

VIII. Follow-Up Reviews

As mentioned above, follow-up reviews are scheduled at the discretion of the ARB management team as needed to ensure that a district undertakes timely and effective corrective actions in response to findings from an audit. Because follow-up reviews focus on specific areas that require correction, the process used for follow-up reviews is unique to each individual situation and the members of the audit team are likewise selected to fit the scope of the follow-up review. Generally, a similar pattern to that used for comprehensive audits is followed; the audit team first meets with the district for an entrance interview where the nature and scope of the follow-up review are discussed, the audit team next conducts the review and consults with the district during that time as necessary, and finally the audit team meets with the district for an exit interview to discuss the results. The results of a follow-up review are formally reported to the APCO of the affected district in the form of a letter from ARB, typically signed by the Executive Officer. That letter also includes a description of the process that was used to conduct the review. The district typically has 30 calendar days to respond to the letter. If the Department of Finance is involved in a follow-up review, it conducts its investigation separately (but in coordination) from ARB and reports its results in a separate letter. All letters and responses resulting from follow-up reviews are posted on ARB's Carl Moyer Program website (<http://www.arb.ca.gov/msprog/moyer/audits/audits.htm>). Districts are also

encouraged to make such documents available to the public via the district website and by presenting them to their governing board.

IX. Recordkeeping

The audit lead is responsible for maintaining complete and up-to-date electronic and hard copy audit files. A separate electronic audit file folder is maintained for each district audit on the shared “alt” drive in the “Carl Moyer Program/monitoring and audits” file. The audit file on the shared drive is considered the master file and reflects the latest versions of all documents. The audit lead is responsible for ensuring that the master file is up-to-date. For example, immediately upon return from a site visit, the audit lead downloads all new and modified documents to the shared drive. The main folders in each district audit file are standardized and clearly labeled to enable independent access by other members of the audit team during the audit and long after its completion. As appropriate, each file is segregated into two sub-files according to the confidential nature of the documents contained in the file (see discussion below). Such sub-files are labeled as “open access” or “restricted access.”

Hard copy audit files contain all written materials associated with an audit and are organized in two parts, one that contains information that can likely be shared with the public and one that contains material presumed to be confidential. The first, public, part of the file includes the following types of documents:

- Formal correspondence between ARB and the district such as the audit notification letter, audit report, and the district’s response.
- Final documents (not draft, deliberative documents) that support the recommendations and findings listed in the audit report. These include the list of specific deficiencies shared with the district during the exit interview and the corresponding district documents and files at issue.

The second part of the file includes all other audit materials, which are routinely treated as confidential materials.

All files are to be retained in the Incentives Oversight Section’s office area or another secure area on ARB’s premises for as long for as the programs audited (i.e. the Carl Moyer Program, Lower-Emission School Bus Program, and any other relevant program) remain active plus seven years after those programs expire.

X. Amendments to Audit Policies and Procedures

ARB reserves the right to amend these audit policies and procedures during any audit, as there may be instances in which these policies and procedures are not applicable to the audit parameters approved by management or procedures followed by the district being audited. In cases in which ARB deviates from the

policies and procedures as described above, the audited district will be notified and the amendments will be described in the audit report issued by ARB.